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March 9, 2010

Ms Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

Dear Ms Rupp,

Citadel Federal Credit Union appreciates the opportunity to comment on NCUA's proposed corporate credit union regulations. Chartered in 1937, Citadel FCU is a $1.4 billion in assets serving 129,000 credit union members in the Greater Philadelphia Region.

While at the CUNA GAC last, week, we attended a session regarding the corporate credit union regulations. While each stakeholder, NCUA, corporate credit unions /CCUs and natural person credit unions/NPCs, was represented on the panel, it was clear that there are varying opinions on how to resolve this issue in order to insure that the systemic failure does not re-occur.

While Citadel currently does not utilize the corporate credit union system, Citadel can appreciate the desire to have services provided by a credit union owned and operated system. This current economic crisis has been unprecedented in our history. While there appears to have been unreasonable risk taking by some corporate credit unions, some have followed their business model and have proven to be operating in a safe and sound manner. It appears that the CCU system, initiated several decades ago, has expanded significantly in their service offerings and is in need of fundamental changes. While perhaps not readily and cost effectively available to all natural person credit unions, many of these corporate services could be cost effectively available from other providers.

We believe that there should be a credit union owned system to provide payment processes and liquidity services to natural person credit unions. In order to obtain the business of natural person credit unions, including a re-capitalization of the corporates, corporate credit unions will need to have a sound business model and plan that enables them to provide value to their member owners, similar to the natural person credit union model. Corporate credit unions will need to operate within a regulatory framework that provides them with the ability to conduct business while not posing a systemic risk to the entire credit union industry. It appears that the corporate credit unions in order to subsidize lower margin services increased their risk in the area of investments and this commensurate increased risk taking was a factor in their unprecedented losses.

While NCUA has declared that their intent is to provide regulations within which the corporate credit unions can exist, Citadel would recommend that NCUA conduct an assessment regarding consolidation of the corporate credit union system. As the CEO of a NPCU expressed during the CUNA GAC meeting last week, there is overcapacity in the corporate system. This overcapacity appears to have contributed to an environment of competitiveness among the corporate credit unions which, in some cases, encouraged them to invest in riskier instruments while seeking high yields in order to subsidize their other services. As was stated at this meeting, there is a need for a transformation. As the NPCU CEO suggested, consolidation with perhaps a regional focus of 2-4 corporate credit unions would be sufficient to service the industry more effectively. While NCUA has stated that this objective is best achieved through the natural selection process, NCUA, from a safety and soundness perspective, should research the benefits of this consolidation. Citadel believes the resulting entities could be stronger, reduce the administrative burden of more than two dozen corporate credit unions and reduce the insurance liability, assuming these entities are governed and regulated by knowledgeable experts in their field. More effectively operated and regulated, risks to the credit union industry would be mitigated.

While it is not our intention to comment on the details of the proposal, in summary, we support NCUA's position as well as all natural person credit unions that the regulations must be revised to insure that this situation never again occurs. NCUA has outlined the principles under which it has developed these proposed regulations: reduce credit risk, reduce interest rate risk, and increase liquidity in the credit union system and investments. These guiding principles appear to be those that also guide the natural person credit unions. Overall, the corporate credit union system must:

- Strengthen capital standards
- Improve asset liability requirements and monitoring mechanisms
- Improve investment policies including concentration limits
- Ensure knowledgeable financial experts are providing corporate governance to these increasingly complex entities
- Ensure knowledgeable regulators are providing oversight

A couple of comments/suggestions follow.

Our overall concern aligns with yours – the safety and soundness of the credit union system. The regulations need to be revised so to that the capital requirements for corporate credit unions reflect the risk associated with their balance sheets. It is clear that the corporate credit unions had insufficient capital for their risk management strategies. Corporate credit unions should be required to validate their asset liability assumptions through independent modeling. This is similar to the requirements NCUA has made of natural person credit unions. ALM modeling continues to be increasingly complex and requires sophisticated tools utilized by knowledgeable financial experts.

We also believe that there must be transparency of the balance sheet. Given a higher degree of transparency, natural person credit unions may have been able to more fully evaluate their corporate investments. However, in speaking with several credit unions, it appears that many do not have the resource time to effectively evaluate the soundness of their vendor decisions. While these leads to an entirely new discussion, it is paramount that NCUA understand the reliance that some natural person credit unions place on NCUA, their corporate credit unions and other third party providers. If oversight responsibility is not properly resolved, there will be continued risk to the entire credit union industry.

One suggestion we ask NCUA to strongly consider is a separate insurance fund for corporate credit unions with assessments paid by those natural person credit unions who utilize their services or some other type of firewall between the corporate credit union customers and those who do not utilize their services.

We also again request that NCUA communicate their plan to address the legacy assets on the books on the corporate credit unions. This issue is of serious concern to Citadel FCU. Citadel FCUs' primary fiduciary responsibility is to the safety and soundness of our credit union and its members. Our primary objective is to effectively utilize capital to provide better service to our members whatever path these improvements take.

Thank you for the opportunity to comment on the proposed regulations. Please contact us if further information is required.

Sincerely,

Jeff March

Jeff March, President /CEO